

EXECUTIVE SECRETARIAT
ROUTING SLIP

ER

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt		X		
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC				
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SUSPENSE

Date

Remarks Please advise ES if further dissem should be made.

STAT

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ER Executive Secretary

27 Jun 86

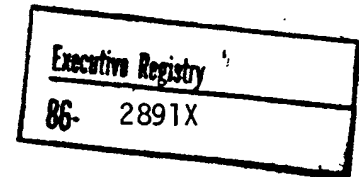
Date

3637 (10-81)



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 25, 1986



M-86-22

MEMORANDUM FOR HEADS OF DEPARTMENTS AND AGENCIES

FROM: James C. Miller III
Director

SUBJECT: ~~Overhead Costs~~

This is to request your help in strengthening procedures for reviewing and approving overhead costs of federally assisted programs. Based on our inquiries and reviews made by two of the Inspectors General (IGs), we are concerned that overhead costs charged to Federal programs by local governments and others may be excessive. The problem may be attributable in part to alternative treatment of cost allocation plans under our Circular A-87, "Cost principles for State and local governments."

The circular requires grantees to support overhead through cost allocation plans showing how the costs will be distributed. However, the circular does not require the cost allocation plans of local governments to be submitted or reviewed, nor does it set any time requirements for approval of the plans. The plans are to be retained at the local government for review by a designated Federal agency, unless the agency asks that they be submitted. States, on the other hand, are required to submit plans for negotiation and approval.

The IG audits disclosed that present policies result in a hit-or-miss review of cost allocation plans. It is possible, therefore, that millions of dollars in overhead may be improperly charged to Federal assistance programs because reviews of cost allocation plans are not made or are not made effectively. For example, the HUD IG found that three cities improperly allocated about \$2.6 million dollars to operating departments based on unsupported estimates or on inequitable or unsupported bases. In another instance, two central service plans contained duplicate costs and costs of questionable allowability totaling \$4 million. The IG recommended that the Department establish formal procedures for the submission, review, and approval of cost allocation plans. The IG further recommended that the review be documented, showing the scope of review, costs reviewed, and deficiencies noted.



L-2471R



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 25, 1986

Executive Registry

86- 2891X

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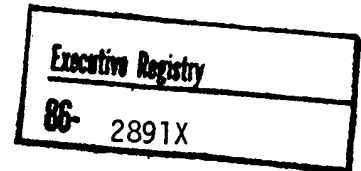
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